



IOWA GENERAL ASSEMBLY  
**LEGISLATIVE SERVICES AGENCY**

DENNIS C. PROUTY, DIRECTOR  
 IOWA STATE CAPITOL  
 DES MOINES, IA 50319  
 515.281.3566  
 Fax: 515.281.8027  
[dennis.prouty@legis.state.ia.us](mailto:dennis.prouty@legis.state.ia.us)

**DIVISIONS**

LEGAL SERVICES  
 RICHARD L. JOHNSON

FISCAL SERVICES  
 HOLLY M. LYONS

COMPUTER SERVICES  
 GLEN P. DICKINSON

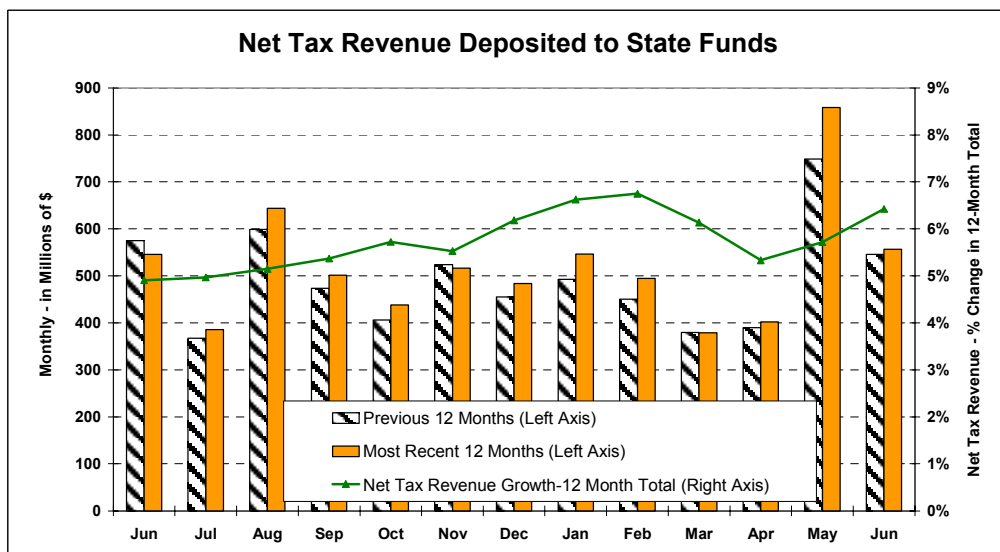
ADMINISTRATIVE SERVICES  
 TIMOTHY C. FALLER

**MEMORANDUM**

TO: Members of the Iowa Senate and  
 Members of the Iowa House of Representatives  
 FROM: Jeff Robinson  
 Shawn Snyder  
 DATE: July 18, 2007

**Twelve-month Total Net Tax Receipts Through June 30, 2007**

The attached spreadsheet presents net State tax receipts for the 12-month period ending June 2007 with comparisons to the previous 12 months. June 2007 to June 2006 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were collected, along with the refunds issued against those taxes.



**Month of June Comparison**

June net tax receipts totaled \$556.3 million, an increase of \$10.2 million (1.9%) compared to June 2006. Major taxes contributing to the month's change include:

- Individual Income Tax (positive \$23.1 million, 11.3%) – Gross receipts were up \$19.9 million while Income Tax refunds were \$3.2 million lower for the month.
- Corporate Income Tax (negative \$19.5 million, -32.5%) – Gross receipts decreased \$13.5 million and refunds increased \$6.0 million. The comparison month of June 2006 was particularly strong for Corporate Income Tax.

- Sales/Use Tax (positive \$3.0 million, 1.9%) – General Fund Sales/Use Tax receipts increased \$7.2 million and Use Tax deposited to the Road Use Fund increased \$1.3 million. The monthly gross increase for each Fund was a strong 5.4%. Much of the General Fund increase was offset by a \$5.6 million increase in refunds.
- Fuel Tax (positive \$9.5 million, 33.3%) – Gross Fuel Tax revenue increased \$3.2 million while refunds processed in the month decreased \$6.3 million.
- Cigarette & Tobacco Taxes (positive \$14.8 million, 142.3%) – The Cigarette Tax was increased from \$0.36 per pack to \$1.36 per pack on March 16, 2007. The rate for other tobacco products also increased.
- Insurance Premium Tax (negative \$8.8 million, -24.7%) – The Insurance Premium Tax rate is being phased-down from 2.0% to 1.0% in 0.25% increments.

### **Year-over-Year Comparison – Net Tax Revenue**

During the 12-month period ending June 2007, net revenue from all taxes deposited to State funds totaled \$6.206 billion, an increase of \$374.5 million (6.4%) compared to the prior 12 months. Major contributors to the change and the year-over-year dollar and percentage change include:

- Individual Income Tax (positive \$247.4 million, 10.3%) – Growth has generally been strong, highlighted by a big jump in early December, a flat April, and a strong increase in May and June when tax returns were processed. The latest 12 months were boosted by changes to the State's income tax withholding tables that started April 2005 and ended April 2007.
- Corporate Tax (positive \$61.9 million, 24.0%) – Corporate Tax has shown strong growth since 2003. The rate of growth has tapered off over the last two months.
- Sales/Use Tax (positive \$19.4 million, 0.9%) – The rate of Sales/Use Tax growth has been falling steadily over the past 12 months. Higher gas prices are likely contributing to the lagging receipts of both the General Fund and the Road Use Tax Fund (vehicle sales), while the General Fund is also impacted by slowing home construction.
- Motor Fuel Tax (positive \$4.4 million, 1.0%) – Net Motor Fuel tax revenue has been flat over the past two years, likely the result of higher fuel prices reducing the growth in fuel demand.
- Gambling Tax (positive \$25.1 million, 9.9%) – New casino boats have started operations and existing track casinos have introduced table games during the last 12 months.
- Cigarette and Tobacco Tax (positive \$35.2 million, 35.7%) – The tax rates for cigarettes and other tobacco products were increased March 16, 2007.
- Insurance Premium Tax (negative \$16.2 million, -13.3%) – The Insurance Premium Tax rate is being reduced over multiple years.

### **Tax Spotlight – Sales/Use Tax**

Sales of goods and services to the final user are taxed under the authority of Chapter 423, Code of Iowa. The sales of all tangible property to the final user are subject to the taxes unless the tangible property is specifically exempt in Section 423.3, Code of Iowa. The sales of services are exempt unless specifically enumerated in Section 423.1(6), Code of Iowa. With a few exceptions, items that are exempt from Sales Tax are also exempt from Use Tax.

The State Sales Tax rate is 5.0%. In addition to the State Sales Tax, with voter approval, local jurisdictions can impose a local option Sales Tax (LOST) of up to 1.0% and school districts can impose a school infrastructure local option Sales Tax (SILO) of up to 1.0%. Beginning on July 1, 2007, the

minimum rate in Iowa is 6.0% (State and local Sales Tax rate combined) and the maximum rate cannot exceed 7.0%.

The Use Tax rate is 5.0% and is not subject to LOST or SILO (except for transactions involving natural gas, natural gas services, electricity, or electric service). In general, the Use Tax includes:

- Tax collected by out-of-state based firms making sales of tangible personal property or certain services purchased for use in Iowa (Retailer's Use Tax).
- Tax on goods or services purchased tax free by consumers and subsequently used in Iowa (Consumer's Use Tax).
- Tax collected by Iowa county treasurers or the Iowa Department of Transportation on vehicles subject to registration (Motor Vehicle Use Tax).

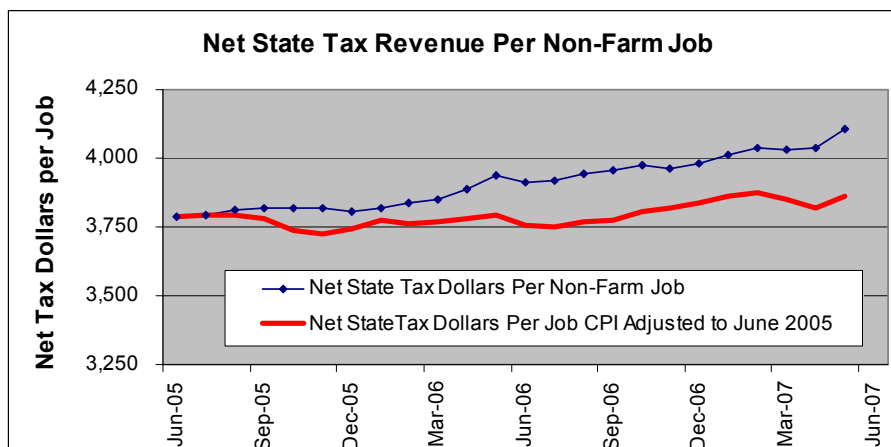
The Iowa Sales Tax was first imposed in 1934 in HF 1 (Net Income and Retail Sales Tax Act) for a three-year period at a rate of 2.0%. The Sales Tax was made permanent in 1937 with the passage of SF 316 (Sales Tax Act). The Iowa Use Tax was enacted in 1937 (SF 317 – Use Tax Act) in conjunction with the permanent adoption of the Sales Tax at the 2.0% rate. The tax rates were increased to 2.5% in 1955, lowered to 2.0% in 1957, increased to 3.0% in 1967 and 4.0% in 1983. The rate was changed to 5.0% in 1992.

The jurisdictional local option Sales Tax (LOST) was approved during the 1985 Legislative Session in HF 395 (Local Option Sales Tax Act). The school infrastructure local option (SILO) Sales Tax was approved during the 1998 Legislative Session in HF 2282 (Local Option Sales Tax for School Infrastructure Act).

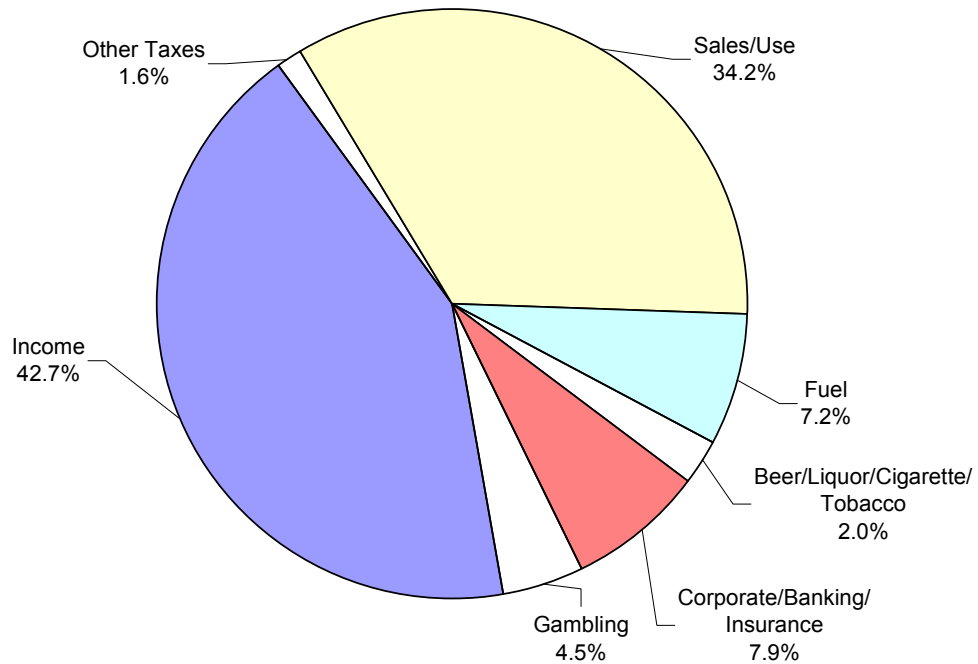
Retailers who sell tangible personal property or taxable services are responsible for collecting the State Sales Tax and any local option Sales Tax. The retailers are required to hold a retail permit and file a tax return. Depending on the amount of tax collected, deposits are due annually, quarterly, monthly or semi-monthly. State Sales Tax is deposited in the State General Fund. The LOST and SILO receipts are deposited in a special fund with disbursements going to the local entities monthly.

## Tax Revenue and Employment

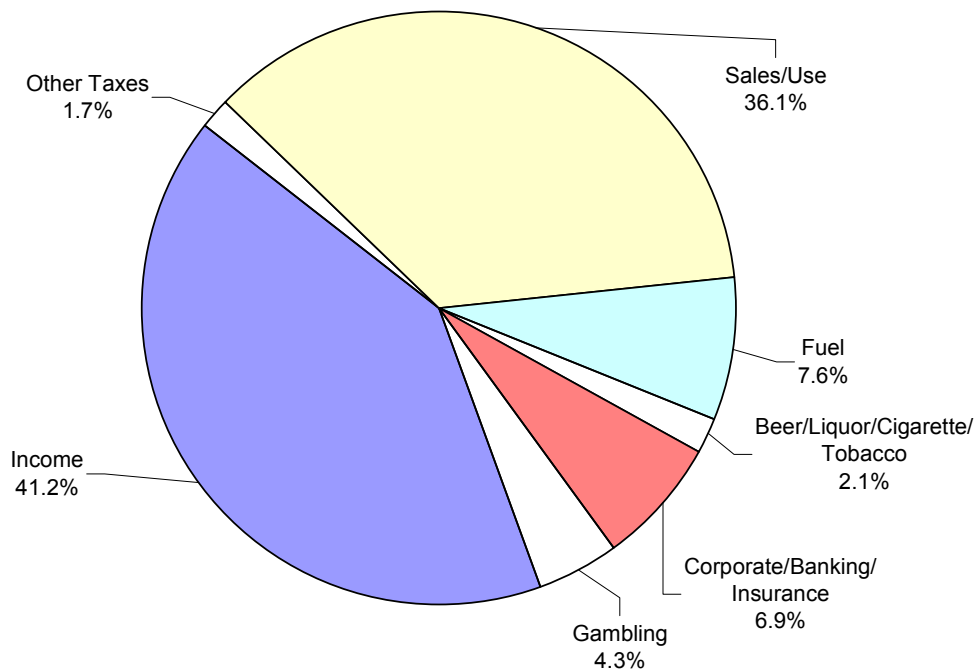
The average reading for Iowa non-farm employment over the 12 months ending May 2007 is 1,510,700, and net State tax receipts over the same 12 months totaled \$6.196 billion, or \$4,105 per non-farm job. This is \$315 (8.3%) higher than the per-job average for June 2005. Over that same time period, inflation (CPI-U) increased 6.9%. Therefore, tax revenue per job has exceeded the rate of inflation since June 2005 by roughly 0.7% per year. The following chart provides an historical perspective of tax collections per non-farm job and inflation-adjusted collections per job.



**Net State Tax Revenue - Twelve Months Ending June 2007**  
**Net Revenue = \$6.206 Billion**



**Net State Tax Revenue - Twelve Months Ending June 2006**  
**Net Revenue = \$5.831 Billion**



## Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

<b>Net Tax by Tax Type</b>	<b>Total Previous 12 Month Period</b>	<b>Total Most Recent 12 Month Period</b>	<b>12 Month \$ Change</b>	<b>12 Month % Change</b>	<b>Month of June 2006</b>	<b>Month of June 2007</b>	<b>June \$ Change</b>	<b>June % Change</b>
Banking	\$ 33.0	\$ 31.9	\$ - 1.1	-3.3%	\$ 5.3	\$ 4.5	\$ - 0.8	-15.1%
Beer & Liquor	19.8	20.3	0.5	2.5%	1.9	1.9	0.0	0.0%
Cigarette & Tobacco	98.5	133.7	35.2	35.7%	10.4	25.2	14.8	142.3%
Corporate Income	258.2	320.1	61.9	24.0%	60.0	40.5	- 19.5	-32.5%
Fuel	443.3	447.7	4.4	1.0%	28.5	38.0	9.5	33.3%
Gambling	252.8	277.9	25.1	9.9%	33.6	22.3	- 11.3	-33.6%
Individual Income	2,403.3	2,650.7	247.4	10.3%	204.3	227.4	23.1	11.3%
Inheritance	71.8	73.9	2.1	2.9%	5.7	5.7	0.0	0.0%
Insurance	121.4	105.2	- 16.2	-13.3%	35.6	26.8	- 8.8	-24.7%
Other Taxes	7.3	4.5	- 2.8	-38.4%	2.1	2.9	0.8	38.1%
Real Estate Transfer	19.2	17.9	- 1.3	-6.8%	2.2	1.6	- 0.6	-27.3%
Sales/Use	2,102.7	2,122.1	19.4	0.9%	156.5	159.5	3.0	1.9%
<b>Total Net Taxes</b>	<b>\$ 5,831.3</b>	<b>\$ 6,205.9</b>	<b>\$ 374.5</b>	<b>6.4%</b>	<b>\$ 546.1</b>	<b>\$ 556.3</b>	<b>\$ 10.2</b>	<b>1.9%</b>
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	\$ 6,478.9	\$ 6,870.7	\$ 391.8	6.0%	\$ 577.9	\$ 592.2	\$ 14.3	2.5%
Tax Refunds	\$ - 647.6	\$ - 664.8	\$ - 17.2	2.7%	\$ - 32.0	\$ - 36.0	\$ - 4.0	12.5%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	\$ 4,906.7	\$ 5,250.7	\$ 344.0	7.0%	\$ 456.8	\$ 465.0	\$ 8.2	1.8%
Road Use Tax Fund	\$ 693.0	\$ 696.9	\$ 3.9	0.6%	\$ 53.5	\$ 64.2	\$ 10.7	20.0%
Non-GF Gambling	\$ 193.9	\$ 219.1	\$ 25.2	13.0%	\$ 33.6	\$ 22.3	\$ - 11.3	-33.6%
Other State Funds	\$ 37.9	\$ 39.3	\$ 1.4	3.7%	\$ 2.1	\$ 4.8	\$ 2.7	128.6%
<b>Local Option Taxes *</b>	<b>\$ 599.1</b>	<b>\$ 657.5</b>	<b>\$ 58.4</b>	<b>9.7%</b>	<b>\$ 53.7</b>	<b>\$ 59.0</b>	<b>\$ 5.3</b>	<b>9.9%</b>

\* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

## **Tax Categories Used in Table**

**Franchise (bank) Tax:** Taxes on banks are deposited to the State General Fund. State Credit Union Tax is included on this line also.

**Beer & Liquor Tax:** Taxes on beer, liquor, and wine are deposited to the State General Fund, the Liquor Control Fund, and a small amount is deposited to a Department of Economic Development fund for wine promotion.

**Cigarette & Tobacco Tax:** Cigarette and the tobacco products tax revenue is deposited to the State General Fund.

**Corporate Income Tax:** All Corporate Tax is deposited to the State General Fund.

**Motor fuel Tax:** All Motor Fuel Tax is deposited to one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

**Gambling Tax:** The first \$60.0 million of Gambling Tax revenue each fiscal year is deposited to the State General Fund. Other funds receiving deposits of Gambling Tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, The Gambler's Assistance Fund, the County Endowment Fund, the Endowment for Iowa's Health Account, and the Vision Iowa Fund.

**Individual Income Tax:** Most Individual Income Tax revenue is deposited to the State General Fund. Other destinations include the Workforce Development Fund (\$4.0 million) and Child Daycare Fund (\$2.6 million). In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited to a State fund. That revenue is not included here.

**Inheritance Tax:** All Inheritance Tax is deposited to the State General Fund.

**Insurance Premium Tax:** All Insurance Premium Tax is deposited to the State General Fund.

**Other Taxes:** Other taxes include Brucellosis Eradication Property Tax (deposited to a Department of Agriculture and Land Stewardship's fund), Drug Stamp Tax (State General Fund), Utility Replacement Property Tax (State General Fund), and Car Rental Tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to a separate account to fund tax collection activities (tax gap).

**Real Estate Transfer Tax:** Real Estate Transfer Tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 95.0% to the State General Fund and 5.0% to the Shelter Assistance Fund.

**Sales/Use tax:** General Sales/Use tax is deposited to the State General Fund, while most vehicle Use Tax is deposited to the Road Use Tax Fund. An annual amount of \$17.0 million of vehicle Use Tax is deposited to the Underground Storage Tank Program.

**Local Option Taxes:** Local option taxes are presented at the bottom of the table and are not included in the numbers above. Local option taxes include School Infrastructure Local Option Sales Tax (SILO), Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and Hotel/Motel Tax.

## **Report Database**

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.